

10 Foreign Trade and Investment

Balance of Payments

Japan's Balance of Payments

(¥ billion)

	Current account			Financial account	Capital balance
	Total	Trade	Services		
1996	7,158	9,097	-6,779	-14,606	-354
1997	11,436	12,310	-6,542	-35,187	-488
1998	15,758	15,984	-6,455	-12,552	-1,931
1999	12,174	14,016	-6,151	10,347	-1,909
2000	12,876	12,563	-5,134	-1,452	-955
2001	10,652	8,527	-5,315	343	-346
2002	14,140	11,733	-5,264	322	-422
2003	15,767	12,260	-3,904	1,280	-467
2004	18,618	14,298	-4,102	-21,390	-513

Balance of Payments of Major Countries, 2003

(US\$ billion)

	Current account					Capital and financial account
	Total	Goods	Services	Income	Current transfers	
Japan	136.22	106.40	-33.91	71.24	-7.51	-119.23
Germany	54.87	151.66	-50.42	-13.85	-32.53	-78.63
France	4.38	1.04	14.93	7.59	-19.19	-10.20
UK	-33.46	-77.30	23.88	36.00	-16.05	31.71
USA	-530.66	-544.30	47.79	33.28	-67.44	542.69

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*, 2004.

Exchange Rate

After the Plaza Accord reached by the finance ministers and central bank governors of the Group of Five industrial nations in New York in September 1985, the yen appreciated from over ¥240 to the dollar in that month to under ¥120 in January 1988. It continued to climb, reaching a record ¥80 to the dollar in April 1995. After that it began to depreciate. On August 11, 1998, the yen was traded at ¥147.64 in the Tokyo foreign exchange market, but it began to appreciate sharply, reflecting confusion in the international financial market in the latter half of the year. In 2001, as fears for the future of the Japanese economy increased, the yen quickly fell at the turn of the year. Eventually the yen weakened, with the dollar climbing above ¥130 at the end of December for the first time in about three years. After staying in the range

of ¥103 to ¥112 in 2004, the yen depreciated sharply in the latter half of 2005 to the ¥115–¥121 level in December due to the economic lull at the beginning of the year. The Japanese currency was being traded at ¥117.47 to the dollar and ¥142.51 to the euro as of the end of March 2006.

Trends of Yen's Exchange Rate Against Major Currencies

(end of year)

	US dollar	UK pound	Euro ^a
1995	102.91	159.54	135.14
2000	114.90	171.83	107.87
2001	131.47	191.68	117.32
2002	119.37	192.98	125.72
2003	106.97	191.09	134.91
2004	103.78	199.49	140.96
2005	117.48	202.77	139.70

Source: Bank of Japan.

a. ECU prior to January 1999.

Foreign Trade

In the most striking development in Japan's international trade in 2004, China, including Hong Kong, replaced the United States as Japan's largest trading partner, the first time since the statistics started in 1947. This trend continued in 2005, and according to data released by the Finance Ministry in March 2006, Japan's two-way trade with China in 2005 reached ¥24.95 trillion, up 12.4% over 2004, exceeding that with the United States of ¥21.88 trillion. China accounted for 20.4% of Japan's international trade in 2005, topping 20% for two consecutive years. Japan's exports to China in 2005 amounted to ¥12.81 trillion, an increase of 8.3% over the previous year. Imports from China also rose by 17.1% to ¥12.15 trillion, with a sharp increase in computers.

The emergence of China as Japan's largest trading partner underscores, among other things, the growing dependence of Japanese manufacturers on China for the production of their exports. Exports to the whole of Asia climbed 7.3% to ¥31.80 trillion, while imports from Asia also jumped 13.7% to ¥25.28 trillion. Exports to the United States increased 7.8% to ¥14.81 trillion, and imports from that country also rose 4.6% to ¥7.07 trillion. The volume of trade with the EU went up only 2.9% to ¥16.12 trillion (¥9.65 trillion in exports and ¥6.47 trillion in imports).

Japan's overall exports and imports reached record high levels in 2005, with exports rising 7.3% to ¥65.88 trillion and imports leaping 15.7% to ¥56.95 trillion.

Economic Partnership Agreements (EPAs)/Free Trade Agreements (FTAs)

In recent years the Japanese government has been actively seeking bilateral free trade agreements with selected countries, mainly in Asia, as a complement of the

multilateral free trade framework centered on the World Trade Organization. Since the agreements embrace more than trade matters, for instance, investment and labor, the government calls them Economic Partnership Agreements (EPAs).

Japan's first EPA was concluded with Singapore in November 2001. In September 2004 Japan and Mexico signed an EPA, Japan's first comprehensive agreement in which opening of the market for agricultural products is a key provision. The EPA with Mexico was put into effect on April 1, 2005. The top leaders of Japan and the Philippines reached a general agreement in November 2004 on concluding an EPA between the two countries. It will also be a comprehensive agreement that covers trade of agricultural products, services, and Japan's acceptance of Filipino nurses and careworkers. Japan also reached basic agreement with Malaysia and Thailand on concluding an EPA in 2005, and it is currently conducting negotiations with the Republic of Korea, ASEAN (as an organization), Indonesia, and Chile.

Total Exports and Imports (Customs Clearance Basis)

	Exports		Imports		Balance (¥ billion)
	Value (¥ billion)	Annual growth (%)	Value (¥ billion)	Annual growth (%)	
1995	41,531	2.6	31,549	12.3	9,982
1996	44,731	7.7	37,993	20.4	6,738
1997	50,938	13.9	40,956	7.8	9,982
1998	50,645	-0.6	36,654	-10.5	13,991
1999	47,654	-6.1	35,268	-3.8	12,280
2000	51,654	8.6	40,938	16.1	10,716
2001	48,979	-5.2	42,416	3.6	6,564
2002	52,109	6.4	42,228	-0.4	9,881
2003	54,548	4.7	44,362	5.1	10,186
2004	61,170	12.1	49,217	10.9	11,953
2005	65,657	7.3	56,949	15.7	8,707

Source: Ministry of Finance.

Exports and Imports of Major Countries, 2004

(US\$ million)

	Exports	Imports
Germany	911,582	718,045
France	423,761	441,974
UK	341,596	451,680
USA	819,000	1,526,000
Japan	565,675	454,542

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook 2005*.

Value of Japan's Exports by Destination and Commodity, 2004

(\$ million)

	Major categories							
	Total	Textiles	Chemical products	Metal and metal products	General machinery	Electrical machinery	Transport equipment	Precision instruments
USA	127,007	649	6,946	3,662	28,179	23,364	46,019	4,029
China	73,913	3,562	9,174	7,141	17,041	19,412	4,186	3,978
Korea (ROK)	44,248	435	6,822	6,221	8,379	12,075	1,103	2,993
Taiwan	42,019	397	6,608	3,554	10,204	10,452	2,308	3,560
Hong Kong	35,411	994	2,844	1,826	4,548	14,344	1,955	3,159
Thailand	20,277	276	1,904	3,303	4,932	5,140	2,291	420
Germany	18,970	157	1,240	404	3,792	6,190	3,695	1,064
Singapore	17,976	85	1,221	1,079	3,592	6,222	1,645	700
UK	14,987	81	845	438	310	3,439	5,176	331
Netherlands	13,387	63	953	189	5,603	3,115	1,189	671
Malaysia	12,565	95	1,053	1,052	1,755	4,179	1,839	299
Australia	11,811	47	396	460	1,802	1,127	6,797	156
Philippines	9,600	124	685	727	1,905	3,626	654	433
Indonesia	9,075	161	862	1,148	2,581	1,765	1,462	103
France	8,364	127	621	228	1,892	2,025	2,080	241
World total	565,752	8,616	48,306	37,562	116,601	132,872	130,526	24,137

Source: Ministry of Economy, Trade and Industry.

Value of Japan's Imports by Source and Commodity, 2004

(\$ million)

	Major categories							
	Total	Food-stuffs	Raw materials	Mineral fuels	Chemical products	Machinery and equipment	Textiles	Metal and metal products
China	94,362	7,413	1,550	3,250	3,046	37,205	20,206	5,023
USA	62,511	12,933	3,737	1,482	7,802	29,222	515	1,365
Korea (ROK)	22,051	1,442	321	2,830	1,891	10,114	610	2,645
Australia	19,449	4,128	4,088	8,395	241	177	10	1,301
Indonesia	18,695	921	2,494	9,082	536	2,103	494	475
Saudi Arabia	18,491	14	30	18,116	324	1	0	0
United Arab Emirates	18,343	3	14	18,083	16	2	2	178
Germany	17,079	323	119	20	3,571	10,913	137	575
Taiwan	16,687	1,202	429	132	977	10,058	342	975
Malaysia	14,112	147	858	4,042	775	6,041	201	185
Thailand	14,106	2,223	891	205	655	6,589	451	620
Canada	8,407	2,352	3,247	429	391	876	26	611
France	8,351	1,490	109	14	2,485	1,929	310	230
Iran	8,268	11	11	8,207	12	0	25	0
Philippines	8,246	823	468	62	58	5,809	130	84
World total	455,254	49,046	28,457	98,776	35,288	142,373	27,099	23,399

Source: Ministry of Economy, Trade and Industry.

Japan's Direct Investment Overseas

Japan's direct investment overseas in fiscal 2004 declined 1.5% from the previous year to \$35.5 billion. By country and region, Japanese investment in the United States dropped 55.8% to \$4.7 billion, and its investment in Europe was \$13.0 billion, up 2.7% from the previous year. On the other hand, investment in Asia jumped 46.7% to \$9.4 billion. In particular, investment in China grew 45.3% to \$4.6 billion, marking an increase for five consecutive years. This upward trend was led largely by the active investment of the automobile industry. Japanese investment in the Asian NIEs (Republic of Korea, Taiwan, Hong Kong, and Singapore) increased 132.1% to \$2.7 billion, while that in the ASEAN 4 (Thailand, Malaysia, Indonesia, and the Philippines) stayed around \$1.9 billion.

Destination of Japan's Foreign Direct Investment

(US\$ million)

	2000	2002	2003	2004
North America	14,165	8,649	11,039	7,573
USA	14,112	7,592	10,733	7,530
Canada	58	1,057	306	43
Asia	2,173	8,177	4,965	10,548
China	937	2,610	3,950	5,868
Thailand	593	524	673	1,874
Korea (ROK)	1,082	433	335	771
Indonesia	588	303	474	504
Hong Kong	- 123	224	- 78	487
Taiwan	- 104	456	215	479
Malaysia	- 1	261	- 512	162
Singapore	- 1,512	1,880	- 453	136
Philippines	511	1,094	110	6
Europe	11,106	9,907	8,346	7,518
Netherlands	2,273	1,455	3,419	3,355
UK	6,801	2,053	2,500	1,625
Belgium	264	1,763	734	654
Germany	548	576	715	642
France	292	4,009	1,173	25
Latin America	3,984	4,072	3,208	3,133
Cayman Islands	3,659	3,457	1,659	2,746
Mexico	374	240	371	186
Brazil	-324	741	1,089	- 66
Oceania	290	1,424	1,120	1,861
Australia	161	1,142	946	1,654
Africa and Middle East	- 235	316	398	320
World total	31,556	32,301	28,801	30,955

Source: Japan External Trade Organization.

Note: Figures are based on balance of payments.

Local Hiring by Japanese Companies Overseas

(1,000 persons)

FY	1980	1985	1990	1995	2000	2003
Asia	405.3	529.1	676.0	1,236.3	2,038.2	2,466.5
North America	87.2	179.1	466.8	532.8	783.4	673.1
Europe	34.8	92.0	218.4	261.1	401.9	410.1
Latin America	124.1	146.1	115.1	112.1	138.2	131.0
Others	64.7	110.8	73.4	76.2	91.2	85.5
Total	716.1	1,057.1	1,549.7	2,218.5	3,452.9	3,766.2

Source: Ministry of Economy, Trade and Industry.

Foreign Investment in Japan

Foreign direct investment in Japan in fiscal 2004 doubled from the previous year to \$37.5 billion, exceeding Japan's direct investment overseas, the first such reversal since statistics began in 1961. Investment in the manufacturing sector dropped 77.9% to \$952 million, while that in the nonmanufacturing sector jumped 2.5 times to \$36.5 billion. Particularly notable was the increase in the financial sector, which tripled from the previous year to reach \$27.7 billion, caused mainly by loans from US financial institutions to Japanese corporations. By country and region, investment from the United States recorded a 7.9-fold increase to \$24.4 billion, while investment from the EU was \$6.7 billion, up 10.0%.

To promote foreign direct investment in Japan, the government inaugurated the "Invest Japan" campaign in May 2003 by establishing an office at each ministry, agency, and institution concerned to provide necessary information for potential foreign investors.

Foreign Direct Investment in Japan by Source

(\$ million)

	2000	2002	2003	2004
Netherlands	1,691	1,710	3,206	3,664
USA	- 976	2,564	- 582	1,371
Germany	1,932	555	1,755	1,166
France	2,277	2,305	653	1,071
Canada	1,036	565	28	883
Singapore	83	124	333	391
Korea (ROK)	48	63	- 95	250
Switzerland	98	1,045	- 287	104
UK	225	541	- 437	- 316
World total	8,322	9,245	6,325	7,817

Source: Japan External Trade Organization.

Note: Figures are based on balance of payments.

Foreign Companies' Presence in the Japanese Market

FY	1995	2000	2002	2003
Sales volume (¥ billion)				
All industries	18,235 (1.2)	26,626 (1.9)	27,048 (2.0)	32,540 (2.4)
Manufacturing	11,923 (2.9)	18,345 (4.4)	16,363 (4.3)	19,303 (5.0)
Nonmanufacturing	6,312 (0.6)	8,282 (0.8)	10,686 (1.1)	13,237 (1.4)
Number of employees				
All industries	225,096 (0.6)	330,558 (0.8)	293,688 (0.7)	434,943 (1.0)
Manufacturing	163,135 (1.6)	240,327 (2.4)	201,579 (2.2)	236,217 (2.7)
Nonmanufacturing	61,961 (0.2)	90,231 (0.3)	92,109 (0.3)	198,726 (0.6)

Source: Ministry of Economy, Trade and Industry, *Gaishikei kigyo doko chosa* (Survey of Trends in Business Activities of Foreign Affiliates), 2004.

Note: Figures in parentheses show share of whole market (%).